

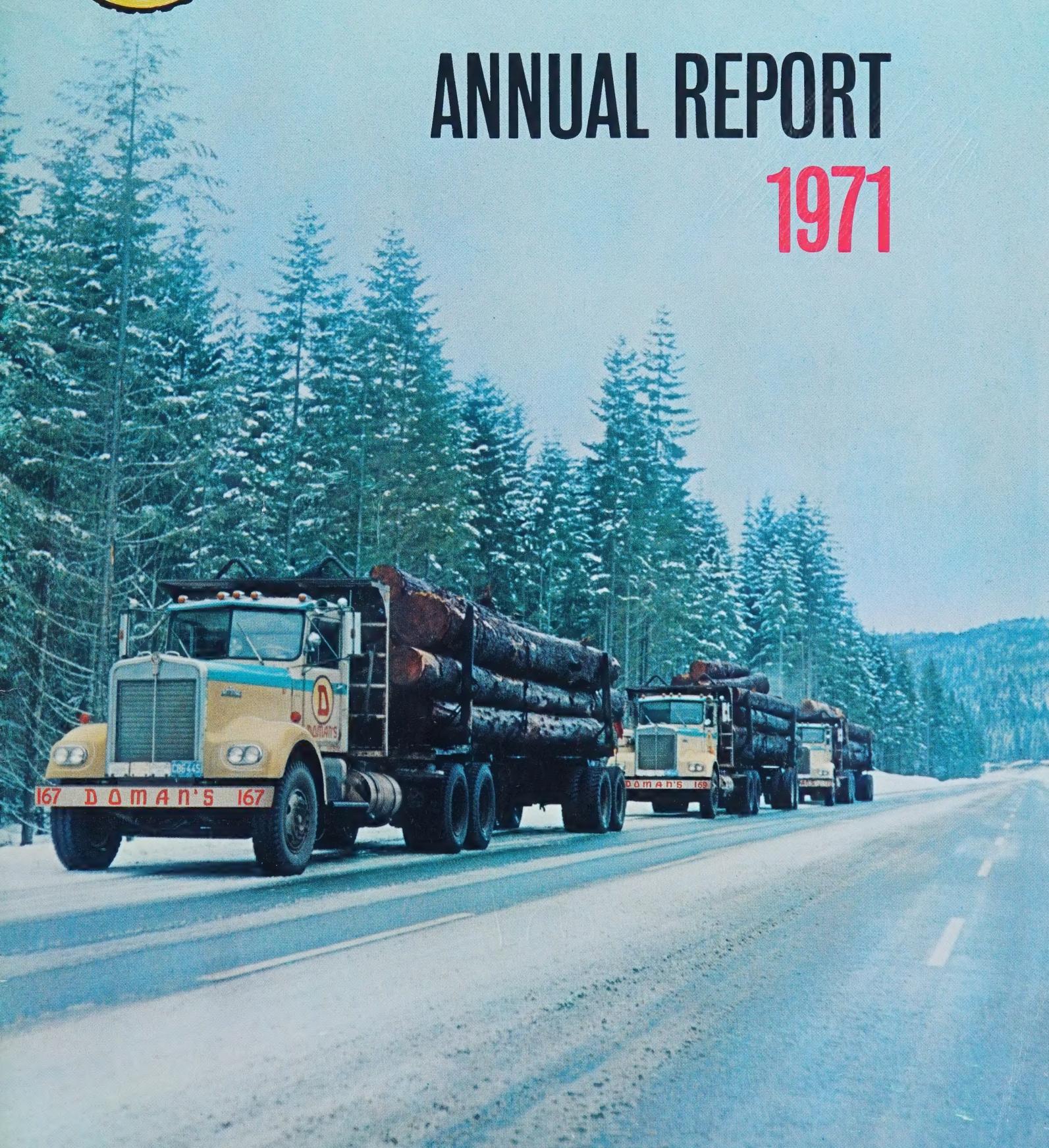
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DOMAN INDUSTRIES LIMITED

ANNUAL REPORT

1971



Cover — Doman's Transport logging trucks on Lake Cowichan Road.

DOMAN INDUSTRIES LIMITED

(Incorporated under the laws of the Province of British Columbia)

Board of Directors	H. S. Doman, <i>President, Doman Industries, Duncan, B.C.</i> D. C. Roberts, <i>Chartered Accountant, Victoria, B.C.</i> I. C. Danvers, <i>Executive, Oyama, B.C.</i> J. C. Davie, <i>Barrister & Solicitor, Williams, Davie & Bird, Duncan, B.C.</i> D. S. Doman, <i>Executive, Doman Industries, Victoria, B.C.</i> G. B. Elworthy, <i>Executive, Victoria, B.C.</i> E. C. Westwood, <i>Executive, Nanaimo, B.C.</i> J. R. Abercrombie, C. A., <i>Treasurer, Doman Industries, Duncan, B.C.</i>
Officers	H. S. Doman, <i>President</i> J. C. Davie, <i>Secretary</i> J. R. Abercrombie, <i>Treasurer</i>
Transfer Agent and Registrar	Royal Trust Company, <i>Vancouver, B.C. and Toronto, Ontario.</i>
Stock Exchanges	Common Shares — <i>Toronto and Vancouver</i> Preferred Shares — <i>Vancouver</i> Share Purchase Warrants — <i>Vancouver</i>
Bankers	The Royal Bank of Canada
Solicitors	Williams, Davie & Bird, <i>Duncan, B.C.</i>
Auditors	Thorne, Gunn, Helliwell & Christenson, <i>Vancouver, B.C.</i>
Annual Meeting	The Annual General Meeting of the Shareholders of the Company will be held in Duncan, B.C. at the Village Green Inn on Wednesday, March 29, 1972 at 2:00 o'clock in the afternoon.

DOMAN INDUSTRIES LIMITED

Financial Highlights

	1971	1970
Sales.....	\$ 20,816,000	\$ 13,945,000
Net Earnings.....	\$ 1,361,000	\$ 524,000
Preferred Share Dividends.....	39,000	45,000
Earnings Available for Common Shares.....	\$ 1,322,000	\$ 479,000
Earnings per Common Share.....	\$ 1.02	\$.39

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H. S. DOMAN,
President and Chairman of the Board

Review of Operations for the 1971 Year

During the year ended October 31, 1971, consolidated sales passed the twenty million dollar mark, which is the first time this level has been reached by the Company. This volume together with the control of costs and expenses contributed to a record earnings year in 1971. While there are a number of separate operating units and subsidiaries in each of the areas in which the Company is engaged, the three main divisions are: Sawmilling and Logging; Domestic Marketing of Building Materials; and Truck Transport. Increased sales and earnings were realized in all three areas in 1971, with the largest advances being made in Sawmilling and Logging. On a consolidated basis 1971 results, when compared with 1970, showed sales up 49%, net earnings up 160% and earnings available for the Common Shareholders up 176%. Earnings per Common Share in 1971 were \$1.02 (1970 — 39 cents).

In 1971 the Sawmilling and Logging Division achieved record production levels, experienced increased productivity, and enjoyed a good export lumber market. 1971 lumber production totalled 123 million board feet, up 66% over 1970. The area serviced by ports on the U.S. eastern seaboard is our principal market place for lumber. With the United States housing starts rising from the calendar year 1970 level of 1,470,000 actual starts to 1,746,000 actual starts in the first ten months of 1971, a good market for lumber was experienced in our main selling area during the year ended October 31, 1971. On the other hand, there were problems to overcome in the same period, and these included: the reduced return from export sales when the Canadian dollar increased in value after Canada adopted a floating exchange rate; the U.S. Import Surtax which fortunately had no real effect on our export sales return and; strike action by longshoremen on the U.S. East Coast. However, against a background of a strong market, record production levels, and productivity gains the Sawmilling and Logging Division had a very good year.

President's Report to the Shareholders

Turning to the domestic marketing of building materials, we were assisted in 1971 by greatly increased building activity, which was the direct result of falling interest rates and a plentiful supply of mortgage funds. A good volume of business was maintained in this division throughout the year without our having to provide any assistance from the sale and development of lots in our land bank. Sales in 1971 bounced back to \$6,900,000 from the \$5,300,000 level of 1970. We noticed in particular an increasing number of "do-it-yourself" home renovations, and this together with our obtaining a larger share of the expanding new construction market, resulted in a satisfactory year for domestic sales. Significant steps were taken during the year to strengthen our management in this division coincident with our long range plans to further develop the domestic market.

During 1971 our Truck Transport Division logged a record 3,500,000 miles (1970 — 2,700,000 miles), and maintained its excellent safety history. The fleet was expanded by the acquisition of several smaller trucking companies during the year, which together with natural growth placed quite a strain on our existing facilities. The process of merging all of these operations together is about completed, and we will be moving into our new mainland terminal in March 1972. A significant volume of new business was obtained with the above acquisitions, and we now have a broadly based operation with tremendous growth potential. Considering the difficulties encountered during the year, the results for this division were satisfactory. In all three divisions we experienced excellent labour relations. A spirit of co-operation facilitated smooth operations throughout the year, and made possible real gains in productivity. We sincerely appreciate the good efforts, loyalty and enthusiasm of our employees who now number over 400.

Capital Expenditure

The 1971 capital expansion program contained something for each division on which to build for the

future. In the area of Truck Transportation this included; acquisition of freight hauling rights for the States of Washington and Oregon; purchase of additional equipment to provide a fleet of 64 diesel tractors (1970 — 49 units), and a fleet of 125 trailers (1970 — 95 units); and acquisition of property upon which the new mainland freight terminal is being constructed. To assist in the Domestic Marketing of Building Materials further additions were made to the Company's residential land bank, and consulting architects were retained for the initial development in Duncan, B.C. Financing has been arranged for the first block of houses in this development with construction to start in the spring of 1972.

Expansion in the Sawmilling and Logging Division included; the purchase of additional timber quota and logging assets; new production machinery for the sawmills and; an extensive asphalt paving program at the lumber remanufacturing plant and assembly yard. We also finalized an agreement with Pacific Logging Company Limited, a subsidiary of Canadian Pacific Investments Limited, to form a new sawmill company for the purpose of constructing a large log plant at Ladysmith, B.C. This new venture is known as Saltair Lumber Company Ltd., and the shares are held 80% by Pacific and 20% by Doman. Construction has started and when the plant is completed in mid-1972, it will have an initial annual production capacity of 60 million board feet of lumber. Doman Timber Sales Limited is the exclusive sales agent for this lumber production, and we are pleased to be associated with Pacific Logging Company Limited in this new company.

Financial Position

In September 1971 the Company's 1969 first mortgage bonds were retired and a new issue of first mortgage bonds was created. Under this new issue \$2,500,000 was borrowed and is repayable over five years commencing in 1978.

Term financing for the new Saltair Lumber Company Ltd. sawmill has been arranged directly by that Company in the form of debenture debt. The estimated capital cost of \$3,300,000 together with working capital requirements will be met by this term financing, of which Doman Industries Limited will be providing \$268,000.

With increasing consolidated cash flow from operations 1971 — \$2,313,000 (1970 — \$1,239,000), and debt instalments due within one year reduced to \$161,000 at October 31, 1971, Doman Industries Limited will have a substantial internal generation of funds available for replacement and expansion purposes. In addition, under the terms of the 1971 bond issue further amounts are available to the Company on a draw down basis if funds are required for a major acquisition.

Dividend Policy

At a meeting of the Directors held on December 10, 1971, an initial dividend of 2½ cents per Common Share was declared payable January 17, 1972 to the Common Shareholders of record December 20, 1971. It is hoped that a quarterly dividend of 2½ cents can be maintained to establish an annual rate of 10 cents on the Common Shares. This dividend policy is being established now that the working capital and the supporting financial position are at levels previously stated

as necessary before the Company could consider a dividend on the Common Shares. The Directors are extremely pleased to be in a position to declare Common Share Dividend Number One and to announce a regular quarterly dividend policy. As a matter of interest the January 1972 dividend on the Company's Preferred Shares marked the 28th consecutive quarterly dividend paid on that issue of shares.

Outlook

We have ended the October 31, 1971 fiscal year with record operating results behind us, and with a strong financial position to face the new year. It is with considerable momentum that the Company enters its 1972 fiscal year. In 1972 we will benefit from new production machinery being installed in the sawmills, and we anticipate a significant increase in lumber production, over the record levels attained in 1971 by the Company. The U.S. Import Surtax and the small tariff on lumber shipments to the U.S. were both lifted in December 1971, and the only real hurdle for this division to get over in 1972 is the settlement of West Coast labour agreements which expire in mid year. A good export lumber market can be expected in the coming year, and if as is forecasted, U.S. housing starts exceed 1971 levels it will be a very good lumber market indeed. The Company will be in a position to benefit directly from such a market in 1972 because of our additional production capacity, and because of our sales agency for the Saltair Lumber Company Ltd. production of 60 million board feet annually which will be coming on stream in mid 1972.

In the domestic market for lumber, building supplies, sand, gravel and ready mix concrete, we see real sales gains in 1972 in view of falling interest rates and a good supply of mortgage funds being readily available. We plan to double the size of the Duncan Store to handle anticipated retail and wholesale volume in the Cowichan Valley. Development of our land bank in Duncan, B.C. scheduled for the spring of 1972 will further assist the growth of building supply sales in this area. A new materials assembly yard will be opened in 1972 on our property in Richmond, B.C. to provide facilities to handle the increased volume of lumber and building materials which are required by the rapidly expanding Greater Vancouver market. With these developments we are looking forward to an exciting year for the domestic sales division.

The transportation fleet has the equipment, operating authorities, and depot facilities to achieve record sales and earnings in the coming year. When the move into our new mainland depot is completed, consideration will be given to further expansion of the mainland fleet. New contracts on Vancouver Island will also require additional expansion of the fleet in mid 1972. The Transport Division will be a real growth area for the Company in the coming year.

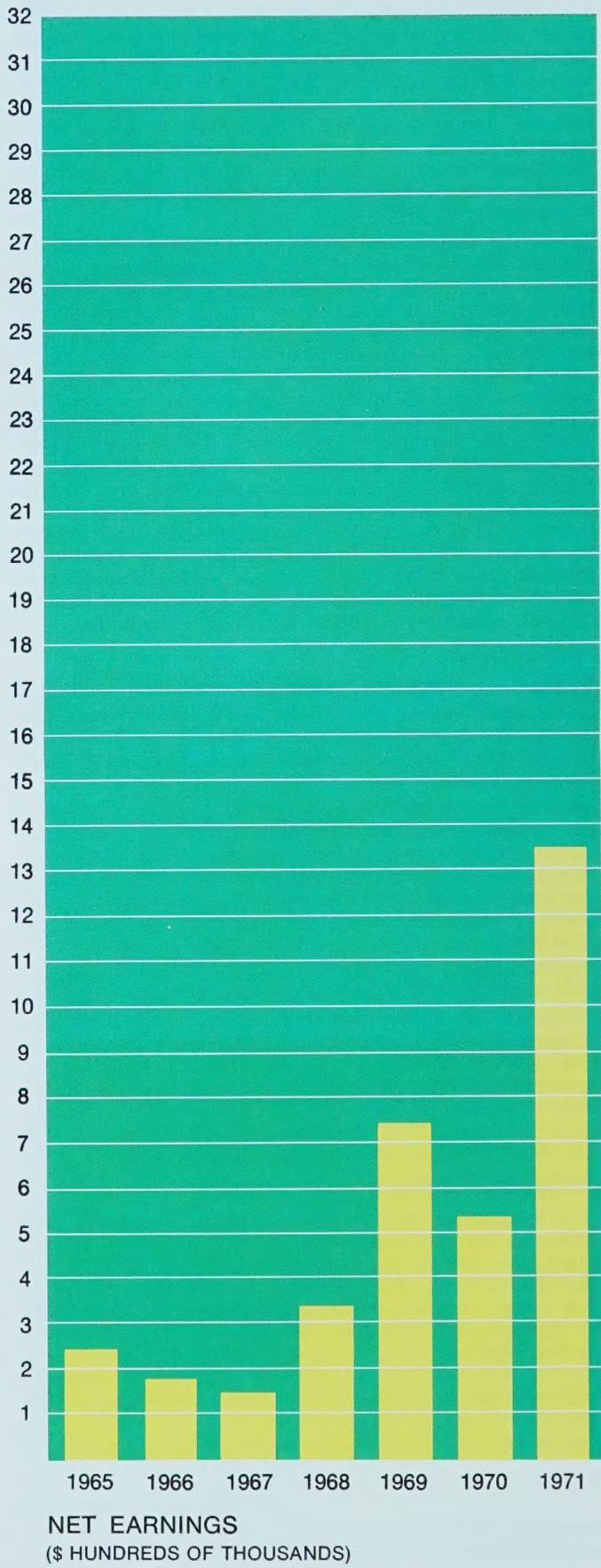
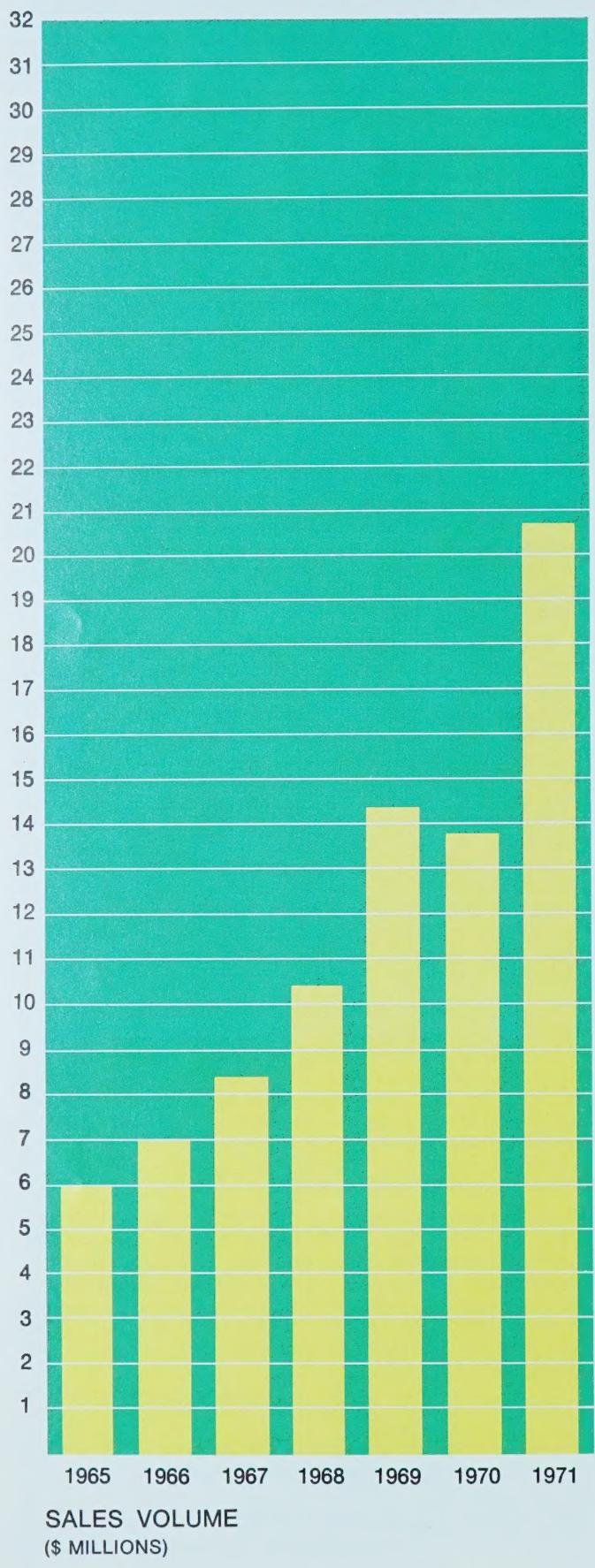
All indications are that in the fiscal year ended October 31, 1972, we will achieve record consolidated sales and earnings. This forecast is made against a background of how we see business conditions in the coming year for the areas in which we are involved, together with the benefits which will accrue to the Company as a result of the 1971 capital expansion program.

Respectfully submitted,

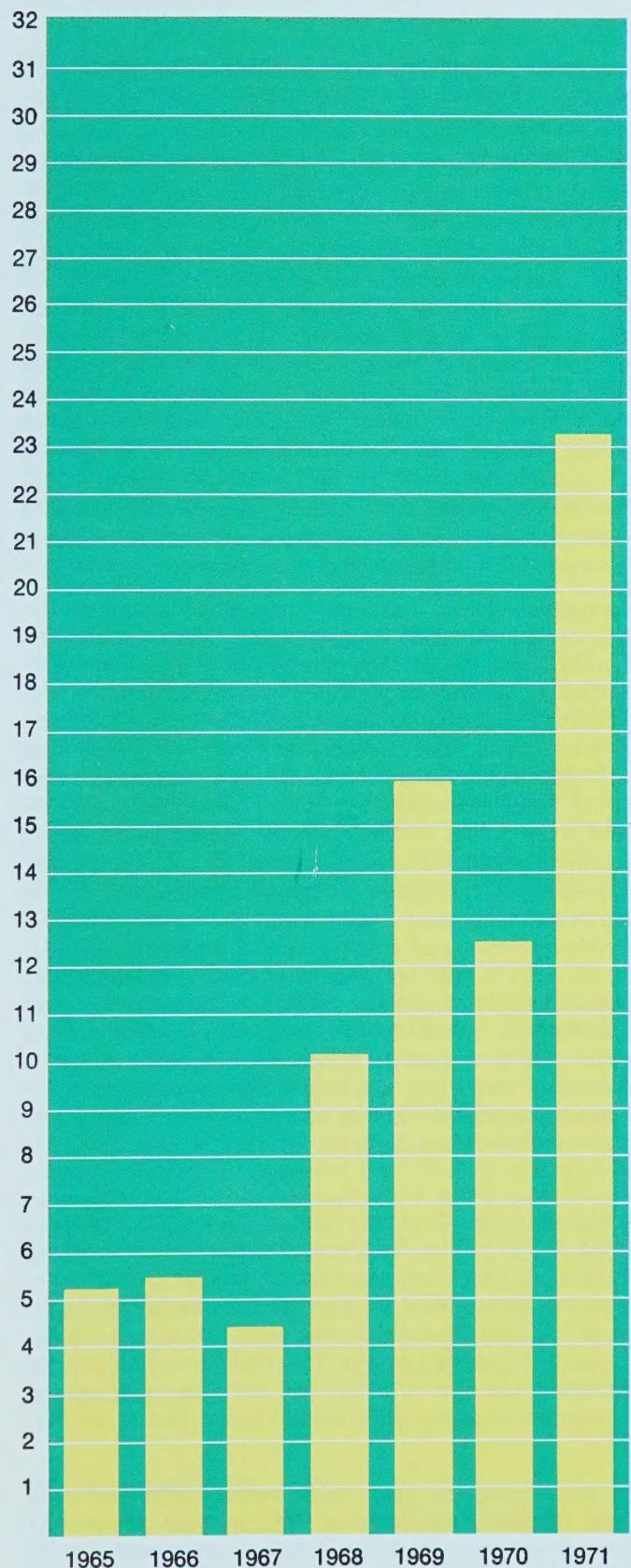


H. S. Doman
President and Chairman of the Board

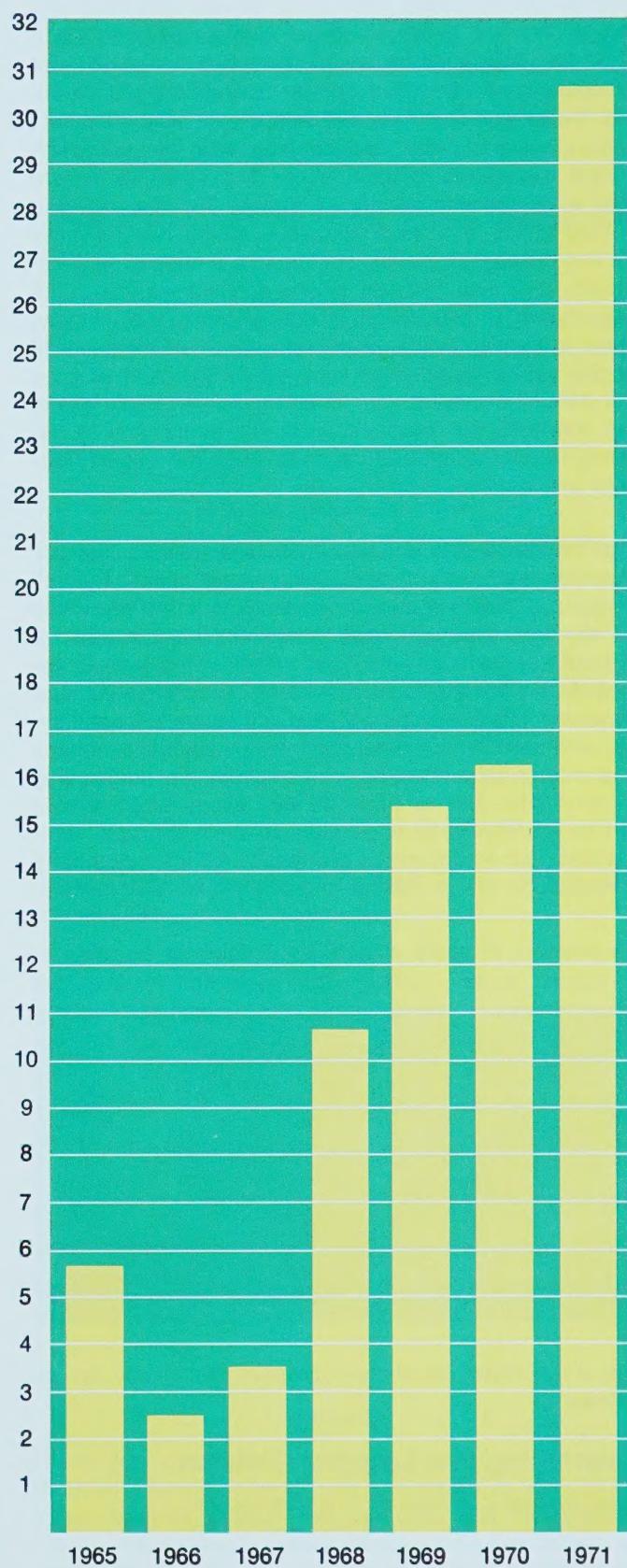
Volumes and Totals / 1965 - 1971



Volumes and Totals / 1965 - 1971



CASH FLOW
(\$ HUNDREDS OF THOUSANDS)



WORKING CAPITAL AT FISCAL YEAR END
(\$ HUNDREDS OF THOUSANDS)

Scope of the Company

The Company's three main operating divisions are: Sawmilling and Logging; Domestic Marketing of Building Materials and Truck Transport. These divisions work closely together and are able to provide considerable assistance to each other. The sawmills ensure that a permanent supply of lumber for the building supply yards is always available. While our sawmills do not usually supply all of Doman's domestic requirements, they can provide whatever volumes the yards are unable to buy from outside sources. Conversely, there are many items produced as part of the sawmill export lumber production runs, which are best sold on the domestic market. Our building supply yards assist the sawmills by purchasing these items and stand ready to take additional volumes when the export markets are poor.

The transportation division does the hauling for our sawmills and lumber remanufacturing plant as well as for our building supply yards. This work can often be done on the night shift, which flexibility allows for good equipment utilization. In addition, the lumber remanufacturing plant and building supply yards can purchase loads of lumber from all points serviced by our transport fleet. These purchases provide the transport fleet with backhauls, and provide the purchasing division with lumber from isolated areas which would not be economically accessible to them if empty trailers had to be sent in for the loads. All inter company transactions are at market and are strictly competitive.

An analysis of sales volume by division is as follows:

	1967	1968	1969	1970	1971
	\$ (millions)				
Sawmilling and logging	2.0	4.5	8.2	8.1	13.0
Domestic marketing of building materials	5.1	5.7	6.9	5.3	6.9
Truck transport	1.8	2.1	2.0	2.3	2.9
Gross sales	8.9	12.3	17.1	15.7	22.8
Deduct: Inter company sales	(.5)	(1.8)	(2.8)	(1.8)	(2.0)
Consolidated sales	8.4	10.5	14.3	13.9	20.8

The three divisions of the Company are made up as follows:

Sawmilling and Logging Division

This division consists of five companies:

Doman Timber Sales Limited, 100% owned, incorporated in 1957 as Doman's Distributors Ltd. This Company holds the exclusive lumber sales contracts for

Ladysmith Forest Products Limited, Nanoose Forest Products Limited, and Saltair Lumber Company Ltd.

Nanoose Forest Products Limited, 100% owned, acquired in 1964. Nanoose presently has sawmilling facilities at Chemainus, B.C. with an annual production capacity of 35 million board feet of rough lumber, and has a lumber remanufacturing plant and planer mill on the same site with an annual capacity of 50 million board feet of finished lumber. Located on land owned by the Company, these facilities are highly versatile and operate at varying levels of production depending upon market conditions. This plant was constructed in the 1969 and 1970 fiscal years and started producing on a sustained basis in 1971 when 28 million board feet of lumber was produced, (1970 — 10 million board feet).

Ladysmith Forest Products Limited, 80% owned, incorporated in 1966. In April 1971 Doman Industries Limited acquired the 5% interest of a minority shareholder of Ladysmith Forest Products Limited in exchange for 20,000 Doman Industries Limited Common Shares issued from treasury at \$9½ per share, total \$187,500. This brought the Company's interest in Ladysmith Forest Products Limited up from 75% to 80%. The present 20% minority position is held by Canadian Pacific Investments Limited through its subsidiary companies Pacific Logging Company Limited and T. W. MacKenzie Logging Ltd. Ladysmith Forest Products Limited commenced construction of a sawmill at Ladysmith, B.C. in 1966 on land under long term lease from Pacific Logging Company Limited. This mill, which was substantially completed in 1967, is designed to cut small logs in a highly mechanized process, and operates on a three shift basis five days a week. In 1971, lumber production totalled 95 million board feet, (1970 — 64 million board feet).

Saltair Lumber Company Ltd., 20% owned, incorporated in 1971. The 80% majority position is held by Pacific Logging Company Limited. In 1971 Saltair commenced construction of a large log sawmill at Ladysmith, B.C. on land under long term lease from Pacific Logging Company Limited. This plant is scheduled for completion in mid 1972 and will have an initial annual production capacity of 60 million board feet of lumber.

O. B. Logging Co. Ltd., 100% owned, acquired 1969. This Company operates a Timber Sale Harvesting License at Jervis Inlet, B.C. as well as several Timber Sales in the Quadra Public Sustained Yield Unit. Log production in 1971 was 17 million board feet, (1970 — 12 million).

Domestic Marketing of Building Materials

This division is made up as follows:

Doman Industries Limited, parent company, incorporated 1955. The building supply outlets are operated as a division of Doman Industries Limited. Wholesale yards are located at Nanaimo, Victoria and Surrey, B.C. with one combination wholesale and retail yard located in Duncan, and one retail yard located in Victoria, B.C. Total enclosed selling and display area of these five stores is 20,000 square feet with the bulkier non-perishable items such as lumber and concrete products being sold from large paved areas adjacent to each store. These outlets are supported by a materials assembly yard at Chemainus on Vancouver Island, and in 1972 a similar assembly yard will be opened in Richmond to support marketing on the B.C. mainland.

The land in Victoria is held under a long term lease. The land in the other locations and all of the buildings, including those in Victoria, are owned by the Company.

Armour & Saunders Ltd., 100% owned, acquired in 1965. Working closely with the Doman's building supply outlets on Vancouver Island, Armour & Saunders Ltd. operates a sand, gravel and ready mix concrete business. This company has its own aggregate deposits, washing plant and concrete batch plant together with a fleet of trucks for delivery of its products. The extensive gravel deposits of Armour & Saunders Ltd. and its plant are located on land owned by the Company.

Doman Investments Limited, 100% owned, incorporated in 1969. Doman Investments Limited has entered into a number of joint ventures to acquire land on Vancouver Island, which land is suitable for residential subdivisions. Up to the end of 1971 the Company has not developed any of the properties in which it holds a major interest, but has been participating as a minority shareholder in land development being carried out by those experienced in this field. In the meantime the land bank is being added to and the first subdivision of property in which the company has a large interest is scheduled for 1972. Housing projects on these properties will be supplied with building materials and ready mix concrete obtained from the Doman's building supply outlets.

Truck Transport

The transportation companies operate under licenses as public carriers in the Province of British Columbia, the States of Washington and Oregon and as far north as Whitehorse in the Yukon Territories.

Vancouver Island

The Vancouver Island operation is based in Duncan and operates out of a modern depot complete with full maintenance and repair facilities for the equipment. These facilities are on land held under long term lease. The buildings and improvements belong to the Company. The companies whose main operations are on Vancouver Island include:

Doman's Transport Ltd., 100% owned, incorporated 1958.

Hyak Transport Limited, 60% owned, incorporated 1971. The 40% minority position in this Company is held by Westcan Terminals Ltd., a subsidiary of Sooke Forest Products Ltd.

B.C. Mainland and North

The B.C. Mainland transport business is based in Vancouver. A new terminal in Richmond, B.C. will become the base for this operation in early 1972. These new facilities are on 17 acres of industrial land acquired by the company in 1971. The new terminal's strategic location on the North Arm of the Fraser River is just outside of Vancouver, includes adjacent rail and highway access and has full foreshore rights. The following companies operate out of Vancouver to points throughout B.C. and north to the Yukon:

Doman-Marpole Transport Limited, 100% owned, acquired 1964.

Doman's Freightways Ltd., 100% owned, acquired 1959.

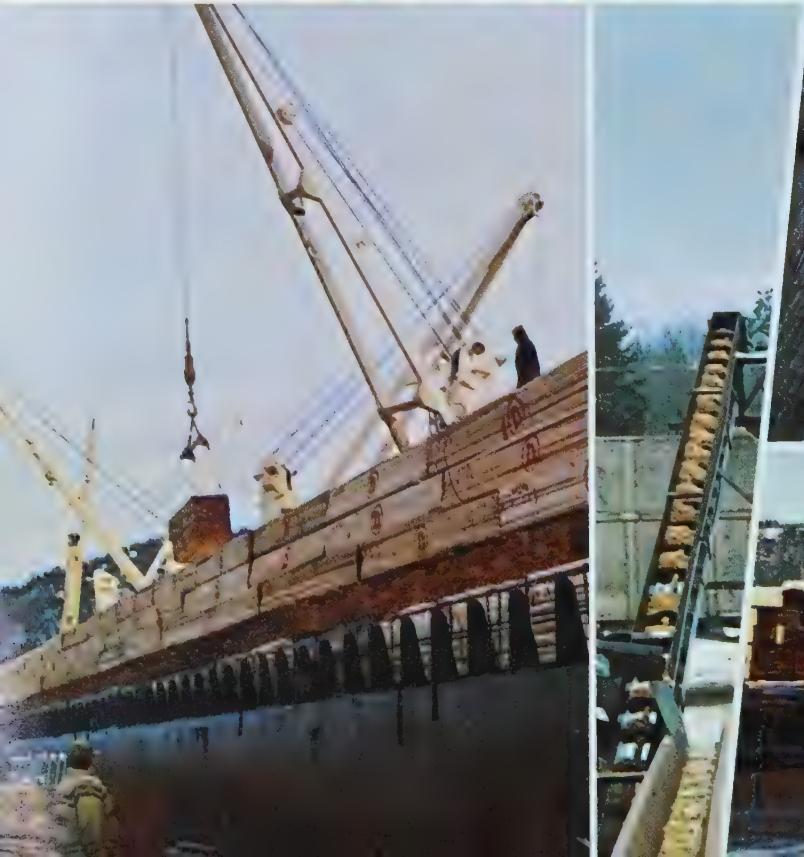
Washington and Oregon

The transport operations in the States of Washington and Oregon are also based at the Vancouver, B.C. depot. This hauling business is done by:

Davinder Freightways Ltd., 100% owned, acquired 1971.

General

These five companies make up the Truck Transport Division. The equipment fleet has grown in 1971 to 64 diesel tractors, (1970 — 49 tractors), and 125 trailers (1970 — 95 trailers), and numerous pieces of additional equipment are hired on a daily basis in order to meet peak demand periods. Miles travelled in 1971 were in excess of 3,500,000 (1970 — 2,700,000).





DOMAN INDUSTRIES LIMITED

Financial Summary / 1965 - 1971

Earnings

	1971	1970
Sales	\$20,816,101	\$13,944,725
Earnings Before Income Taxes	3,042,831	1,181,439
Less Income Taxes	1,681,569	657,239
Net Earnings	1,361,262	524,200
Less Preferred Dividends	39,065	45,139
Net Earnings Available for Common Shares	1,322,197	479,061
Earnings Per Common Share	1.02	.39
(1968 and prior restated for 1969 - 3 for 1 stock split)		

Cash Flow

	1971	1970
Cash Flow from Operations	\$ 2,312,604	\$ 1,238,518
Issue of Securities	1,158,397	3,850
Sale of Fixed Assets	47,110	198,236
Purchase of Fixed Assets	1,349,856	923,417
Reduction in Long Term Debt	272,939	361,328
Sundry Use of Funds	108,372	32,918
Investment in Subsidiary Companies	293,443	—
Preferred Dividends	39,065	45,139
Increase (Decrease) in Working Capital	1,454,436	77,802

Balance Sheet

	1971	1970
Current Assets	6,736,193	\$ 4,759,739
Current Liabilities	3,678,860	3,156,842
Working Capital	3,057,333	1,602,897
Fixed Assets — Net	5,422,317	4,705,892
Other Assets	656,834	425,958
Long-Term Indebtedness	2,749,089	2,095,190
Deferred Income Taxes	663,676	682,078
Preferred Shares	533,560	662,360
Common Shareholders' Equity	4,734,393	3,016,999
Interest of Minority Shareholders	455,766	278,120

1969	1968	1967	1966	1965
\$14,341,367	\$10,486,069	\$8,362,126	\$7,011,818	\$5,981,820
1,817,993	735,057	314,729	374,560	438,169
1,077,000	403,961	156,400	184,415	201,498
740,993	331,096	158,329	190,145	236,671
55,199	63,050	56,550	37,050	27,788
685,794	268,046	101,779	153,095	208,883
.60	.25	.10	.14	.20
1969	1968	1967	1966	1965
\$ 1,593,999	\$ 1,001,781	\$ 428,981	\$ 530,797	\$ 503,446
1,456,400	668,422	1,350,000	—	1,278,484
112,948	862	9,618	44,123	129,649
1,289,193	509,640	1,015,779	735,294	1,283,458
501,822	300,660	371,234	91,997	—
31,074	73,939	236,750	33,377	284,215
831,531	—	—	—	—
55,199	63,050	56,550	37,050	27,788
454,528	723,776	108,286	(322,798)	316,118
1969	1968	1967	1966	1965
\$ 4,587,142	\$ 3,588,436	\$2,802,367	\$2,571,165	\$1,985,534
3,062,047	2,517,869	2,455,576	2,332,660	1,424,231
1,525,095	1,070,567	346,791	238,505	561,303
4,487,724	2,861,629	2,728,026	1,986,637	1,582,983
444,479	494,480	461,208	264,347	299,765
2,456,518	1,490,974	1,123,212	544,446	636,333
601,761	444,761	244,700	235,700	182,700
727,360	970,000	970,000	570,000	570,000
2,469,088	1,469,254	1,201,208	1,139,318	1,055,018
202,571	51,687	(3,095)	25	—

DOMAN INDUSTRIES LIMITED

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1971 (with comparative figures for 1970)

	1971	1970
Sales of products, merchandise and services	<u>\$20,816,101</u>	<u>\$13,944,725</u>
Costs and expenses (notes 2, 3 and 4)		
Cost of sales, selling and administration expense	16,551,445	11,884,448
Depreciation	466,686	407,561
Depletion of timber and amortization of roads	195,080	99,452
Amortization of deferred preproduction expenses	41,675	41,675
Interest on long-term debt	264,244	254,601
Earnings before income taxes and minority interest	<u>17,519,130</u>	<u>12,687,737</u>
Income taxes		
Current	1,699,971	576,922
Deferred	(18,402)	80,317
Earnings before minority interest	<u>1,681,569</u>	<u>657,239</u>
Interest of minority shareholders in earnings of subsidiaries	254,140	75,549
NET EARNINGS FOR YEAR	<u>1,361,262</u>	<u>524,200</u>
Retained earnings at beginning of year	<u>2,347,859</u>	<u>1,868,798</u>
Dividends on preferred shares	<u>3,709,121</u>	<u>2,392,998</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$ 3,670,056</u></u>	<u><u>\$ 2,347,859</u></u>
Earnings per common share (note 9)	<u><u>\$ 1.02</u></u>	<u><u>39 cents</u></u>

Consolidated Statement of Source and Application of Funds

Year Ended October 31, 1971 (with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Operations		
Net earnings for year	\$1,361,262	\$ 524,200
Add items not representing a current outlay of funds		
Depreciation and depletion	661,766	507,013
Deferred income taxes	(18,402)	80,317
Amortization of deferred charges	53,838	51,439
Interest of minority shareholders	254,140	75,549
Total funds from operations	2,312,604	1,238,518
Issue of securities		
Common shares, including \$187,500 in respect of shares issued for acquisition of interest in Ladysmith Forest Products Limited	266,397	3,850
First Mortgage Bonds, net of bonds retired	892,000	—
Sale of fixed assets	1,158,397	3,850
Sale of fixed assets	47,110	198,236
	3,518,111	1,440,604
APPLICATION OF FUNDS		
Additions to fixed assets	1,349,856	923,417
Net reduction in long-term debt	272,939	361,328
Net increase in investments and receivables other than current	108,372	32,918
Dividends on preferred shares	39,065	45,139
Acquisition of additional 5% interest in shares of subsidiary company, Ladysmith Forest Products Limited	187,500	—
Acquisition of subsidiary company, Davinder Freightways Ltd., including working capital deficiency at acquisition date	105,943	—
	2,063,675	1,362,802
INCREASE IN WORKING CAPITAL	1,454,436	77,802
WORKING CAPITAL AT BEGINNING OF YEAR	1,602,897	1,525,095
WORKING CAPITAL AT END OF YEAR	\$3,057,333	\$1,602,897

DOMAN INDUSTRIES LIMITED

Consolidated Balance Sheet At October 31, 1971

(with comparative figures for 1970)

ASSETS	1971	1970
CURRENT ASSETS		
Cash and term deposits, net of bank advances	\$ 1,249,656	—
Accounts receivable	2,123,454	\$1,927,462
Inventories (note 5)	3,226,200	2,714,170
Prepaid expenses and other	136,883	118,107
	6,736,193	4,759,739
INVESTMENTS AND RECEIVABLES OTHER THAN CURRENT	242,342	129,211
FIXED ASSETS, at cost (note 3)		
Buildings, machinery and equipment	5,828,584	5,189,285
Less accumulated depreciation	2,147,774	1,705,678
	3,680,810	3,483,607
Land	666,669	280,262
Timber holdings and logging roads, less amounts written off \$901,608 (1970 - \$706,528)	1,074,838	942,023
	5,422,317	4,705,892
INTANGIBLES AND DEFERRED CHARGES		
Deferred charges, less amortization (note 4)	60,209	108,401
Excess of cost over book values on acquisition of shares in subsidiaries, identified mainly with freight hauling rights	354,283	188,346
	414,492	296,747
	\$12,815,344	\$9,891,589

Approved by the Board

H. S. Doman, Director

J. C. Davie, Director

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank advances, net of cash balances, secured	—	\$ 572,305
Accounts payable and accrued liabilities	\$ 2,107,454	1,693,125
Income taxes payable	1,410,087	411,166
Principal instalments due within one year on long-term debt	161,319	480,246
	3,678,860	3,156,842
LONG-TERM DEBT, less principal instalments included in current liabilities (note 6)	2,749,089	2,095,190
DEFERRED INCOME TAXES	663,676	682,078
INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES	455,766	278,120
	SHAREHOLDERS' EQUITY	
CAPITAL STOCK (note 7)		
Authorized		
73,356 6½ % Cumulative redeemable convertible preferred shares, par value \$10 (1970 - 86,236 shares)	533,560	662,360
3,174,576 Common shares without par value (1970 - 3,123,056 shares)	1,064,337	669,140
Issued		
53,356 Preferred shares (1970 - 66,236 shares)	533,560	662,360
1,341,233 Common shares (1970 - 1,238,306 shares)	1,064,337	669,140
Retained earnings	1,597,897	1,331,500
	3,670,056	2,347,859
	5,267,953	3,679,359
	\$12,815,344	\$9,891,589

AUDITORS' REPORT

To the Shareholders of
Doman Industries Limited

We have examined the consolidated balance sheet of Doman Industries Limited and subsidiary companies as at October 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

November 30, 1971
Vancouver, B.C.

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

DOMAN INDUSTRIES LIMITED

Notes to Consolidated Financial Statements Year Ended October 31, 1971

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the subsidiary companies, all of which are wholly-owned except Ladysmith Forest Products Limited (1971 — 80% owned; 1970 — 75% owned) and two other minor companies. The earnings of Davinder Freightways Ltd., acquired April 1, 1971, have been consolidated from the acquisition date as have the earnings relating to the additional shares in Ladysmith Forest Products Limited.

2. STATUTORY INFORMATION

Included in or netted against cost of sales, selling and administration expense are the following:

- (a) Directors' remuneration, including fees to directors and remuneration of officers and employees who are also directors — \$112,953 (1970 — \$82,-327).
- (b) Gain on sale of fixed assets — \$99,729 (1970 — \$28,964).
- (c) Income from investments — \$10,515 (1970 — \$1,337).

3. FIXED ASSETS AND DEPRECIATION

Depreciation is recorded on a straight-line basis at rates based on the estimated useful lives of fixed assets. These estimated useful lives range between five to ten years for automotive equipment, ten to fifteen years for other equipment and twenty years for buildings. Costs of timber holdings and logging roads are written off as timber in the area is removed.

4. DEFERRED CHARGES

These consist of preproduction expenses of the Ladysmith sawmill (\$48,620, being amortized by regular charges to income over five years to January 1973) and deferred finance fees (\$11,589, being amortized as interest over the life of the debt).

5. INVENTORIES

	1971	1970
Logs	\$1,360,961	\$1,241,010
Lumber.....	1,366,046	918,138
Merchandise	381,743	435,527
Supplies.....	117,450	119,495
	<hr/> \$3,226,200	<hr/> \$2,714,170

Logs and supplies are valued at the lower of cost and replacement cost; lumber and merchandise are valued at the lower of cost and net realizable value.

6. LONG-TERM DEBT

	Principal instalments due within one year	
Outstanding October 31, 1971		
First Mortgage Bond, se- curing 10½ % loan pay- able in 20 quarterly in- stalments of \$100,000 commencing in Septem- ber 1978, balance due September 1983, interest payable quarterly	\$2,500,000	—
7% Debentures of Lady- smith Forest Products Limited, held by its shareholders, payable from 1971 to 1974	233,648	\$ 91,958
Equipment contracts at various rates of interest, payable monthly	71,926	64,561
6% Loans from share- holders	76,034	—
Other agreements payable, secured	28,800	4,800
	<hr/> \$2,910,408	<hr/> \$161,319

During the year the company created a new issue of First Mortgage Bonds. In September 1971 \$2,500,000 was borrowed under this issue and the proceeds in part were used to retire the existing First Mortgage Bonds. A further amount of \$2,500,000 is available to the company on a draw down basis at an interest rate of prime plus 1½ %, and if drawn down will be repaid in quarterly instalments of \$87,-500 with the balance due in September 1976.

7. CAPITAL STOCK

Preferred shares are redeemable at \$10.65 per share; each share is convertible, at the option of its holder, into four common shares at any time up to thirty days after notice of redemption. Changes in the company's capital stock during the year were as follows:

- (a) 12,880 issued preferred shares were converted at their par value of \$128,800 into 51,520 common shares without par value.
- (b) 4,200 common shares were issued for \$15,414 cash on exercise of stock options.
- (c) 27,207 common shares were issued for \$63,483 cash on exercise of purchase warrants.
- (d) 20,000 common shares were issued at \$9¾ per share to acquire an additional 5% interest in the company's subsidiary, Ladysmith Forest Products Limited.

Stock options remain outstanding on 9,300 shares granted to directors in 1969. These are exercisable at \$3.67 per share as to 2,100 shares per year for three years (this right is cumulative) and as to 3,000 shares at \$6.15 per share until July 11, 1974. In addition to the 9,300 unissued common shares reserved for these options, 90,543 common shares are reserved for the balance of 30,181 stock purchase warrants issued in 1967 and still outstanding, entitling the bearer of each warrant until December 31, 1976, to purchase three common shares for \$7.00 (\$2.33 per share).

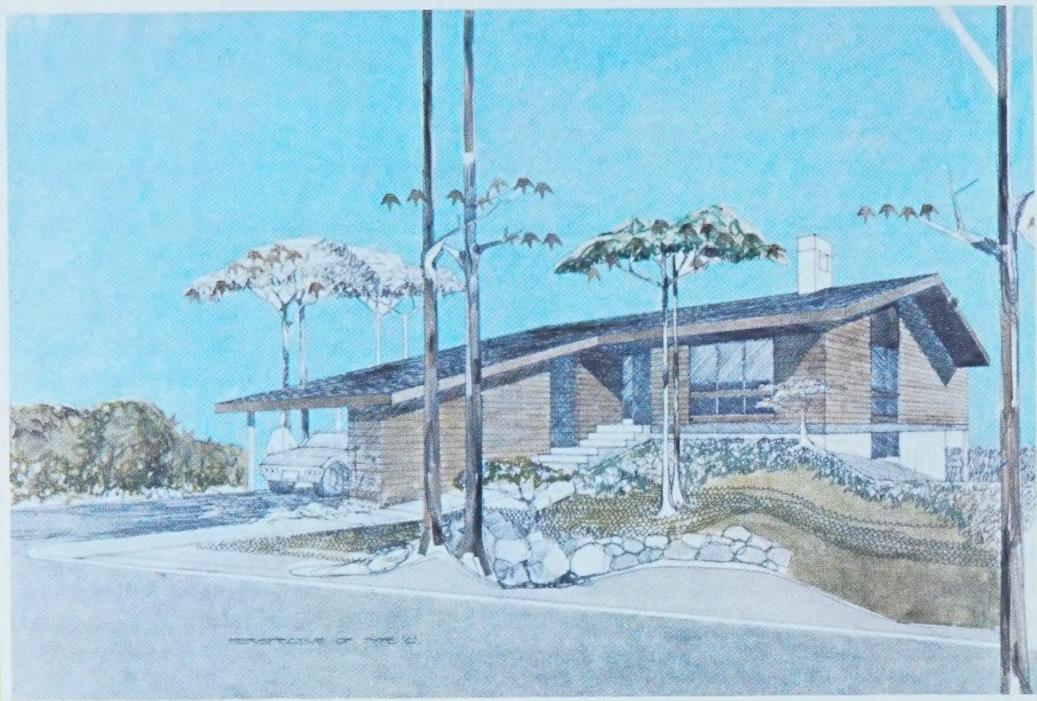
8. COMMITMENT

The company is committed to make up to \$268,000 in long-term advances and to give guarantees up to \$462,000 of long-term borrowings by a new saw-milling company which will be owned 20% by Doman Industries Limited and 80% by Pacific Logging Company Limited.

9. EARNINGS PER SHARE

The figures for earnings per share are calculated on the weighted average number of shares outstanding. Fully diluted earnings per share, assuming that all of the 6½ % cumulative redeemable preferred shares outstanding at October 31, 1971 had been converted into common shares on November 1, 1970 and all stock options and stock purchase warrants had been exercised on that date, would have been, 1971 — 86c (1970 — 34c).

'TIMBERCREST'



House elevation of one of five typical plans.



"Timbercrest" subdivision, Duncan, B.C., stage one.

Key to Pictures on Pages 10 and 11

1. Logs being unloaded, Chemainus sawmill.
2. Bark removal or debarker, Chemainus sawmill.
3. Rough green lumber chain, Ladysmith sawmill.
4. Warehouse, Victoria retail store.
5. Doman lumber being loaded onto vessel, Cowichan Bay deep sea dock.
6. Pulp chips loading, Chemainus sawmill.
7. Doman lumber on vessel bound for U.S. Atlantic Coast ports.
8. Doman's Transport highway tractor and trailer loaded with finished lumber.
9. Logs loaded on Doman's Transport truck at Cowichan Lake.
10. Lumber being loaded at Ladysmith mill for delivery to deep sea dock.
11. Victoria retail store.
12. Log being broken down or cut on Quad Band Mill, Ladysmith sawmill.
13. Part of the new Hyak Transport fleet of highway tractors.
14. Log being moved at Chemainus sawmill yard.
15. Doman lumber being loaded for export shipment.



A Brief History of **DOMAN INDUSTRIES LIMITED**

1955 to 1965

The Company was incorporated in 1955 to carry on the business of its founder, Harbanse S. Doman. The first ventures, which were on Vancouver Island and on the Lower B. C. Mainland, included contract hauling of lumber and copper ore together with selling lumber and fuel. These initial areas were expanded to include operations as a public carrier of freight and the development of full service retail and wholesale building supply outlets.

Doman's Transport Ltd. was incorporated in 1958, and its wholly owned subsidiary Doman's Freightways Ltd. was acquired in 1959. These two companies conducted a public freight business principally between various points on Vancouver Island and the City of Vancouver. In late 1964 the Company acquired Doman-Marpole Transport Limited which was licensed to operate throughout mainland B. C., and provided the Doman Group with access to the developing interior of British Columbia freight market.

In 1964, Nanoose Forest Products Limited was acquired, and this marked the Company's first venture into lumber manufacturing and later into logging. The sawmills of Nanoose Forest Products Limited were operated at approximately a 10 million board foot annual rate, and the principal market was through the Company's building supply outlets.

Doman Industries Limited became a Public Company in late 1964. The Company's common and preferred shares were called for trading on the Vancouver Stock Exchange in April 1965 following a public issue of units made up in total of 57,000 6½% cumulative redeemable convertible preferred shares, par value \$10.00 per share, and 57,000 common shares N.P.V., at \$15.00 per unit. In the same year Doman Industries Limited acquired all of the issued shares of Armour & Saunders Ltd., a Duncan based sand, gravel and ready mix concrete supplier. Consolidated sales volume in 1965 reached just under 6 million dollars.

1966 to 1970

In 1966 Ladysmith Forest Products Limited was formed and construction of its sawmill at Ladysmith, B. C. commenced. The plant was substantially completed in 1967 and from this point on, the production and export of lumber became a major factor in the growth of Doman Industries Limited.

A second public offering was made in early 1967, and this time consisted of units made up in total of 40,000 6½% cumulative redeemable convertible preferred shares, par value \$10.00 each, and 40,000 share purchase warrants, at \$9.75 per unit. In the same year negotiations with RoyNat Ltd. resulted in the first major debt financing totalling \$1,000,000 on a ten year term.

The year 1968 saw the Company open its new Surrey, B.C. wholesale lumber and building supply yard. In 1968 the Ladysmith sawmill began making a significant contribution to profits, and the Doman lumber production on a consolidated basis exceeded 40 million board feet for the first time.

With the acquisition of O.B. Logging Co. Ltd. in 1969 Domans obtained a Timber Sale Harvesting License complete with logging equipment, camp and road development. This step put the Company into its first large sustained yield logging operation.

In July 1969 the common shares of Doman Industries Limited were split 3 for 1, and additional term debt financing totalling \$1,385,000 was completed at the year end. Two records were set in 1969 when lumber produced and sold exceeded 70 million board feet and consolidated sales reached \$14,300,000.

In 1970 there was no single major acquisition although each division had a number of capital expenditures for new assets required both for replacement and normal growth. In May 1970 the Common Shares of Doman Industries Limited were called for trading by the Toronto Stock Exchange. The year 1970 ended with the Company operating from a broad base which included logging, lumber manufacturing, merchandising of building supplies, and truck transportation.

The 1971 year is the subject covered in the earlier pages of this Annual Report.